



# The Real Estate ANALYST

## RENTS RISING RAPIDLY

**I**N February, 1934 the Real Estate Analyst forecast that residential rents and values by 1937 or 1938 would equal or exceed the levels of the last boom. To many of our clients our forecast at that time seemed so wildly optimistic that it was beyond the range of probability. Vacancy was high and rents were at the lowest point in fifteen years, and still dropping.

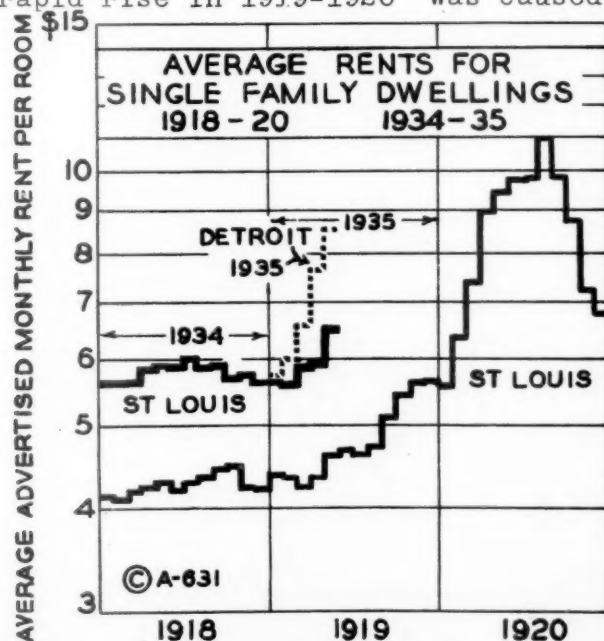
Conditions have changed greatly since then. Residential vacancy has almost disappeared in most cities and rents have advanced appreciably during the past few months. As explained on page 407 in this report, Real Estate Analysts, Inc., compute each week from the classified "for rent" advertisements in the newspapers the average rent per month per room for the various types of dwelling units in twenty-five metropolitan areas. For Saint Louis these figures have been carried back to 1850 in a continuous series.

In the chart below we show a comparison of single family dwelling rents in Saint Louis during the past year and a half with those at the beginning of the last boom.

It will be noticed that recently rents have been behaving very much as they did just prior to the rapid rise in 1919 and the early part of 1920. The last few months have seen a rather definite turn upward. The rapid rise in 1919-1920 was caused by the combination of a housing shortage and the credit inflation which

followed the World War. It now appears from the vacancy figures being received from all of our reporting cities that the housing shortage in the near future will be even more acute than the one in 1920. With the huge government indebtedness, the liberalization of credit provided for in recovery legislation and the 59¢ dollar, inflation at least equal to that of the last boom seems inevitable.

The dotted line on the chart shows the average advertised rent per month per room in Detroit so far this year. We believe that the Detroit figures show quite strikingly how rapidly rents can rise under



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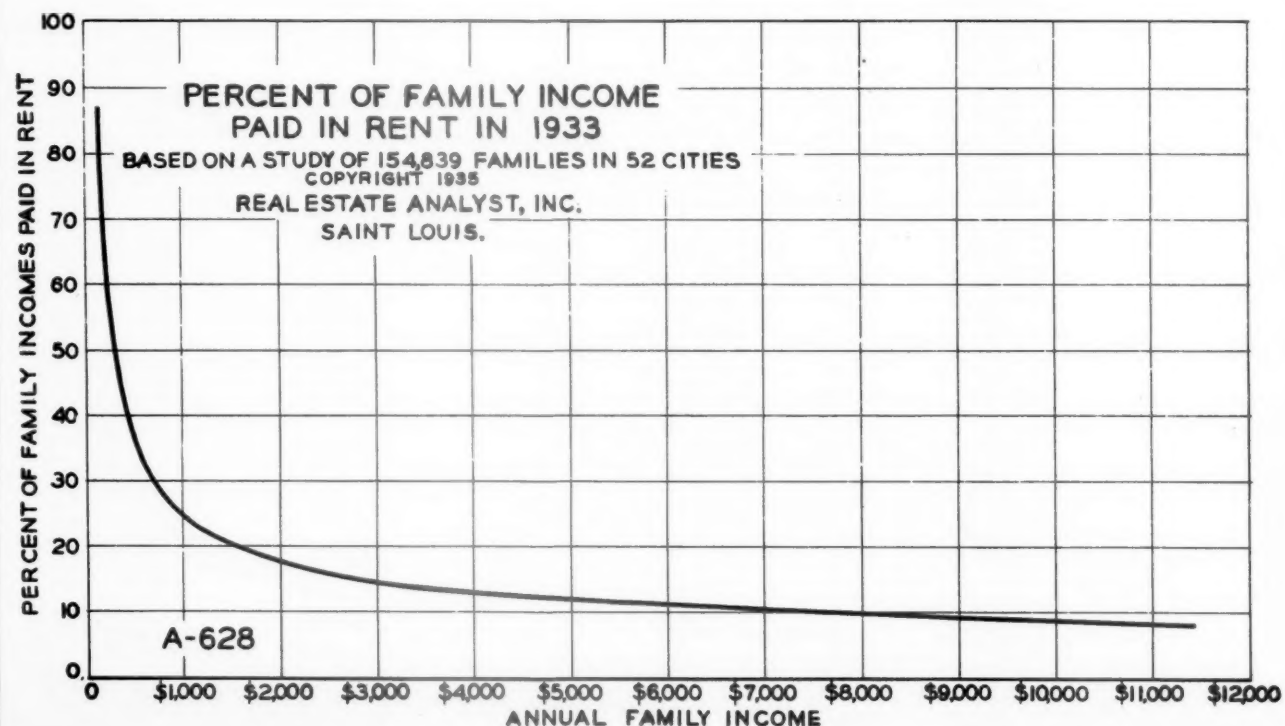
## PER CENT OF INCOME PAID FOR RENT

**L**AST year a Financial Survey of Urban Housing was made by the Department of Commerce in sixty-one cities. So far we have examined the tabulations for fifty-two cities and have made a number of composite studies from them. The chart at the bottom of this page is based on figures for 154,839 families in these fifty-two cities. It shows the percentage of the annual family income which was paid in rent in 1933 for incomes of varying size. Rents, as defined in this study, included the charge for the use of the property and all facilities provided by the landlord without separate charge. The value of concessions allowed the tenant in the form of free occupancy has been deducted.

Undoubtedly, the very high percentage of family income paid for rent in the low income field was due to unemployment in some cases and to reduced earnings in others. Many a man operating a business which generally furnished him a very comfortable living, in 1933 found his income either greatly reduced or entirely destroyed. His payments for rent probably continued at the old level, and in many cases payment for house rent actually exceeded current income. As the survey made by the Department of Commerce made no effort to class men on the basis of "normal income", many men whose normal earnings would exceed \$10,000 a year were classed with the unskilled and the unemployed. This is the only possible explanation of the high percentages in the lower income brackets.

On the other hand, the low percentages in the higher income brackets are conclusive proof of the statement we have made in the Real Estate Analyst that those actually employed have been paying a smaller percentage of their incomes for rent than they did at any time in the past. The higher rents which are now in prospect will be paid from two sources, from greater earnings due to industrial improvement and from a readjust-

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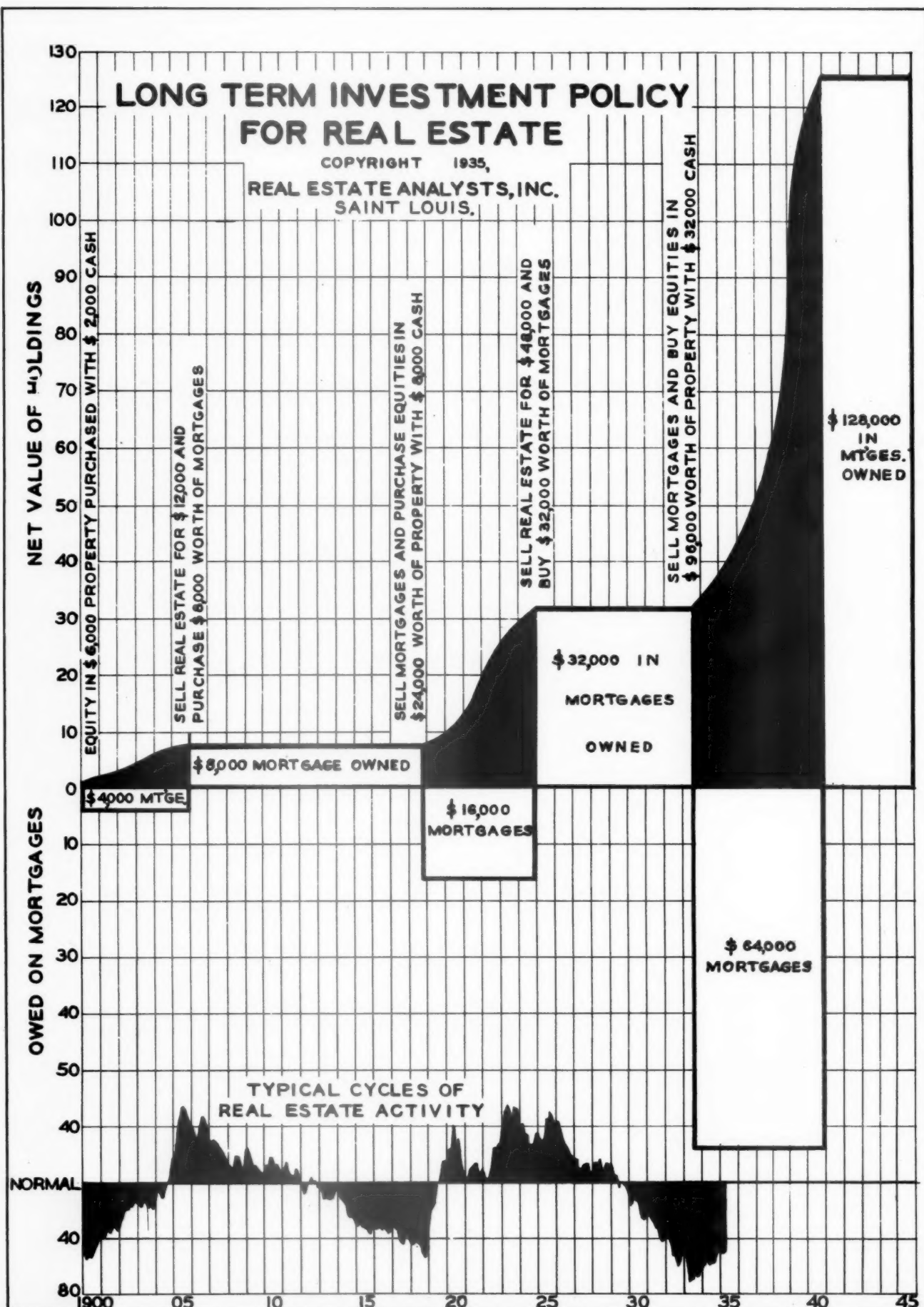
## ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rentals of residential units of various types and sizes each month in the twenty-six metropolitan cities listed below. The figures given are average rentals per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city.

It is to be expected that the average of all places advertised for rent will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. However, the surprising thing is not these occasional "freakish" swings but the regular rises and falls shown by these figures over a period of months or years. That the trend is definitely up in single family dwellings in most cities is clearly indicated by the figures below. Apartment units are more seasonal, with rapid rises expected this fall. These figures will be carried each month in the Real Estate Analyst.

CITY	SINGLE FAMILY					APARTMENTS				
	Jan.	Feb.	Mar.	Apr.	May	Jan.	Feb.	Mar.	Apr.	May
Atlanta	\$ 5.66	\$ 5.74	\$ 5.56	\$ 6.14	\$ 6.47	\$ 8.42	\$ 9.80	\$ 9.90	\$ 9.65	\$ 9.52
Baltimore	4.86	4.98	5.19	5.51	5.77	10.83	11.27	12.09	12.23	11.79
Birmingham	4.43	4.43	4.57	4.85	5.01	8.36	8.62	8.63	8.38	8.12
Boston	6.04	6.65	6.70	6.85	6.51	9.55	11.75	11.36	11.16	10.44
Chicago	7.99	8.59	9.86	10.34	10.46	11.68	12.32	11.86	11.79	11.49
Cincinnati	7.66	7.33	7.33	7.35	7.60	10.70	10.82	10.67	10.30	9.93
Cleveland	6.93	6.64	7.34	7.29	7.95	8.43	9.24	9.84	9.84	9.14
Columbus	5.31	5.17	4.35	4.35	4.65	9.01	9.09	8.89	9.22	8.40
Denver	4.89	4.78	4.72	4.75	5.08	9.70	9.88	10.08	10.14	9.76
Detroit	5.73	6.02	6.60	7.67	8.59	9.60	10.08	10.47	10.37	10.36
Houston	6.44	6.53	6.69	6.96	7.02	8.68	8.38	8.63	8.66	8.13
Kansas City	-	-	-	4.51	4.51	-	-	-	7.05	6.65
Los Angeles	8.43	8.52	8.33	8.29	8.12	10.23	9.76	10.38	11.18	11.28
Milwaukee	6.94	7.60	8.21	8.58	8.91	9.32	9.70	9.97	9.83	9.91
Minneapolis	4.89	4.97	5.19	5.39	5.94	8.89	9.09	9.17	8.81	8.21
New Orleans	4.87	4.79	4.70	4.65	4.69	8.23	8.22	8.73	8.21	7.52
New York	12.20	12.28	13.25	13.32	12.91	17.29	16.87	16.41	16.77	16.91
Omaha	4.69	4.86	5.13	5.73	6.15	10.30	10.29	10.33	10.18	10.45
Philadelphia	5.38	5.58	5.76	5.58	5.67	13.66	14.57	14.61	14.22	13.79
Pittsburgh	6.29	6.72	7.28	7.67	7.43	8.81	9.43	9.88	10.21	9.91
Richmond	5.82	5.50	5.42	5.80	5.86	-	9.56	9.57	9.99	10.23
Saint Louis	5.69	5.64	5.89	5.97	6.55	8.62	8.66	8.76	9.07	9.19
Salt Lake City	4.44	4.39	4.66	4.90	5.18	9.22	9.08	9.20	8.99	9.08
San Francisco	7.15	6.50	6.62	6.78	7.07	11.36	10.92	10.67	10.78	10.67
Seattle	5.02	4.97	5.33	5.28	5.30	10.10	10.24	10.21	10.05	9.69
Tulsa	5.85	5.97	5.77	5.68	5.92					





## LONG TERM INVESTMENT POLICY FOR REAL ESTATE

**D**URING the past year and a half we have strongly advised the purchase of real estate equities. Much as we believe in the ownership of real estate equities today, however, we believe that the greatest and safest profit cannot be secured by the consistent ownership of real estate over a long period of years.

The amount for which an average piece of improved real estate could be sold has shown a tendency to rise and fall in a cycle of from fifteen to seventeen years. If equities are purchased at the low point of the cycle and held for too long a period, the rapid rise in the early part of the cycle is balanced off by the slow decline which follows; and the profit which could have been realized had these properties been sold in the boom is lost.

The chart on the opposite page shows an attempt to illustrate how this general principle has worked in the past for those who, either consciously or unconsciously, took advantage of these major swings. While we realize that this study is over-simplified with many factors omitted, we are more interested in the necessity of switching back and forth from mortgages to equities than we are in the actual percentage of increase in the principal amount. We know, however, that with all factors considered, the percentages of increase we have shown are quite reasonable. Only by the method we describe here is it possible to take full advantage of the basic real estate cycle.

This chart assumes that in 1900, \$2000 in cash was invested in a distress bargain at a purchase price of \$6000. A part purchase money mortgage covered the balance of \$4000. From 1900 to 1906 real estate was improving rapidly, and the property earned enough to take care of all charges against it. Due to the rapid increase in value it was possible to carry the mortgage without payoff. By 1906 the property could be sold for \$12,000, and the proper course was to sell and invest the \$8,000 realized above the mortgage in one or two small mortgages on homes owned by the occupants at about 50% of the value of the property. To have reinvested in real estate at this time would probably have resulted in a loss of at least a portion of the profit earned in the recovery period, as this was a period of slowly falling values. The \$8000 should have been kept in mortgages, probably paying 6% interest, until 1917 or 1918.

By 1917 or 1918 people had lost confidence in real estate, rents and values were low and foreclosures were relatively high. Many distress bargains were again on the market. Almost anyone in this period would jump at the chance of trading equities for good mortgages. The proper course to have taken, however, was to trade the \$8000 worth of mortgages for \$8000 worth of equities in \$24,000 worth of distress properties subject to \$16,000 in mortgages. In fact at that time, as at this, equities could be gotten almost for the willingness to assume the mortgage. From 1918 to 1925 real estate values were increasing rapidly. Decreased vacancies and increased rents enable the properties to carry themselves and show a handsome return. There were no payoffs necessary on mortgages as we were again in a rising market. By 1925 it was easily possible to sell the distress properties of 1917-1918 for at least twice the price at which they were acquired. The proper course was to sell in 1925 or 1926; and assuming that

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ment of the family budget allowing a percentage more in line with past experience for rent.

The second chart we have drawn from this Financial Survey shows the percentage of families delinquent in rent classified by the amount of rent paid. These figures are not so much affected by the low incomes of families normally in the upper brackets, as the basis of this classification is the amount of rent paid rather than the family income.

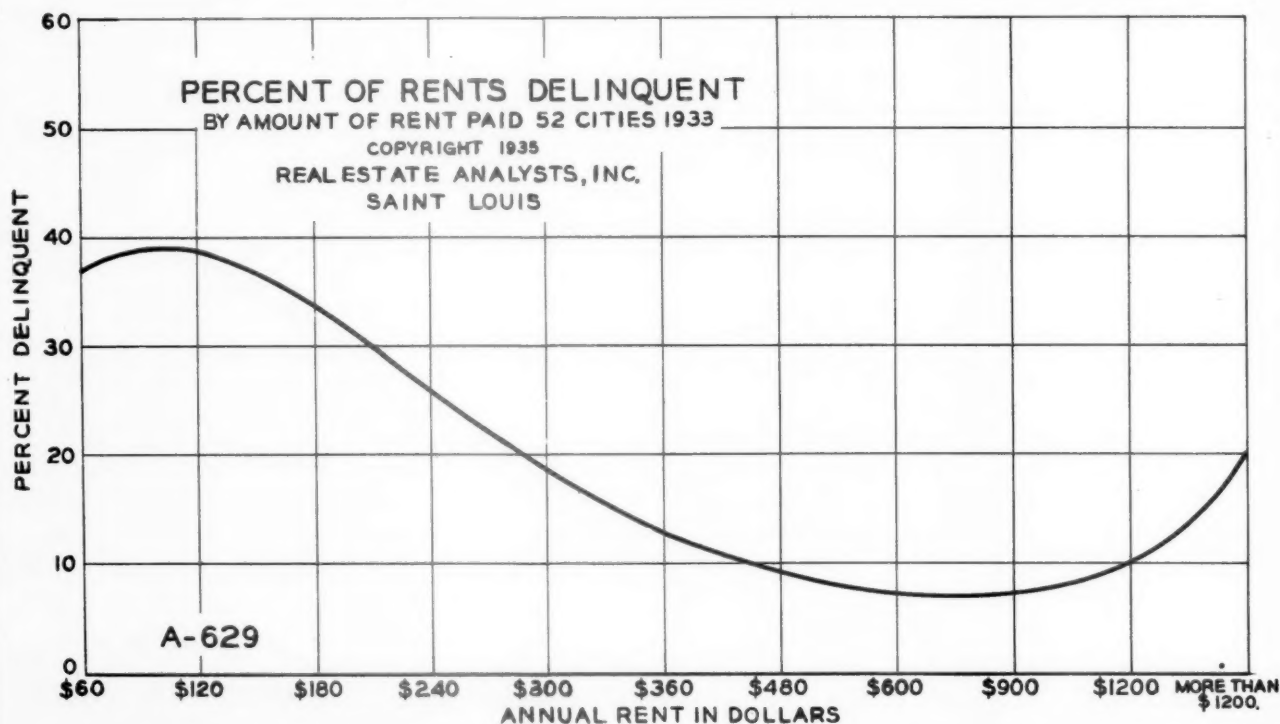
Here, quite clearly the greatest delinquency was among those families paying very low rents. The peak, it will be noticed, was among families paying less than \$10 per month. On the other hand, among families paying as much as \$50 per month delinquency was less than 8%. We believe that the delinquency in the lower rental groups was due principally to unemployment and reduced earnings. The situation has improved very materially since 1933, until at the present time delinquencies are, in our opinion, less than one-half the height shown on this chart.

It will be noticed that the percentage of delinquency increases again in rentals greater than \$100 per month. We believe this delinquency is due to the lack of earnings among business proprietors and others depending primarily on successful business operation for income.

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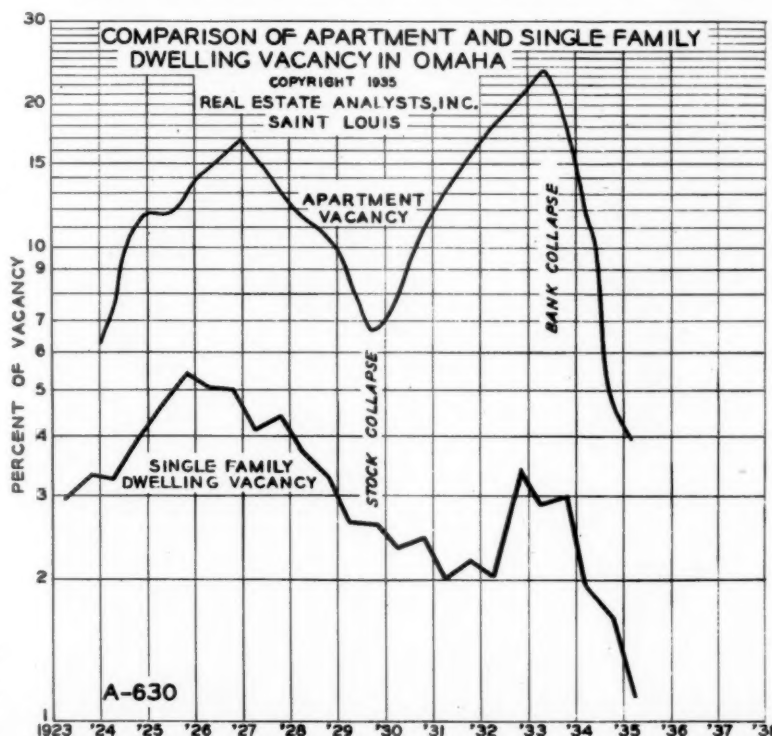
## RELATIVE EFFECT OF A DEPRESSION ON SINGLE FAMILY AND APARTMENT VACANCY

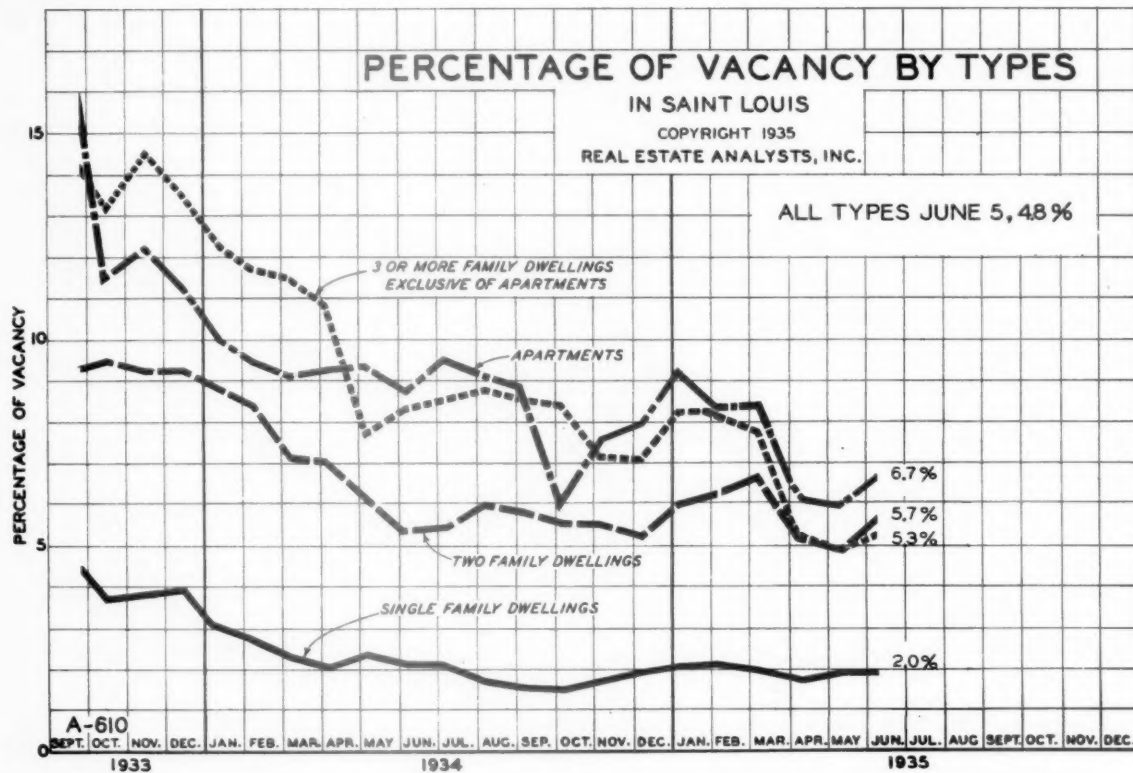
**I**N June, 1933 on page 153 of the Real Estate Analyst we stated, "When unemployment decreases and doubled up families unscramble, we believe that a larger percentage of these doubled up families will go into apartments than into other types of dwellings. Doubling up of families is deceptive in its relative importance in apartments and free standing dwellings. According to all surveys which have been made in Saint Louis and other cities, almost all of the doubled up families are living in single family dwellings. Apartments show relatively few. Because of unemployment or economic stress, in a great many cases the younger couples have been forced to give up housekeeping and 'have gone to live with the folks' until the depression was over. The 'folks', being of an older generation which antedated the apartment, in a majority of cases live either in a single family residence or in a flat. Those who do live in apartments find the limitations of space such, that if it becomes necessary to take in the married children, they must move to larger quarters, probably not of the apartment type. We believe that this is one of the reasons why the vacancies in apartments are so large and in other types of dwellings so small."

That this opinion was correct is shown quite strikingly by the comparison of single family dwelling vacancy and apartment vacancy on the chart below for Omaha. From the time of the stock market collapse in 1929 to the spring of 1932 vacancy was increasing rapidly in apartments but was actually decreasing in single family dwellings. This was due no doubt to the doubling up in single family dwellings of families formerly occupying space in apartment buildings. Then, as the depression became more acute, contraction of space requirements went on at such a rapid rate that vacancies increased rapidly in all types of properties. During the last year and a half, however, a fair degree of recovery has enabled some

doubled up families to again spread to separate dwelling units, and vacancy in apartments has been absorbed more rapidly than other types of vacancies.

This tendency for apartment vacancy to swing in an exaggerated cycle is partially responsible for the greater drop in apartment values during the depression. It should be responsible for a greater appreciation during the period of recovery. This is one of many reasons why we believe that apartment properties well bought on today's market are unusual investments.





VACANCY increased slightly during June in Saint Louis. We think that the increase is largely seasonal. A glance at the chart above or the table below will show how great the absorption has been during the past year.

<u>Month</u>	<u>Vacancy</u>	<u>%</u>	<u>Absorption</u>
November '32	28,207	12.8	
September '33	23,354	10.4	894
October	22,460	10.0	2,010
November	20,450	9.1	-900
December	21,350	9.5	1,102
January '34	20,248	9.1	1,598
February	18,650	8.3	1,100
March	17,550	7.8	900
April	16,650	7.4	1,950
May	14,700	7.5	1,200
June	13,500	6.0	-500
July	14,000	6.3	0
August	14,000	6.3	400
September	13,600	6.1	1,100
October	12,500	5.6	400
November	12,100	5.4	0
December	12,100	5.4	-1800
January '35	13,900	6.2	0
February	13,900	6.2	300
March	13,600	6.1	3,670
April	9,930	4.5	180
May	9,750	4.4	-950
June	10,700	4.8	
Absorption since November, 1932			17,505



# CUBIC COSTS

JUNE, 1935

**C**ONSTRUCTION costs have changed very little during the past three months in spite of the Supreme Court decision. A number of construction materials have dropped, but others have advanced by an amount sufficient to hold the general total steady.



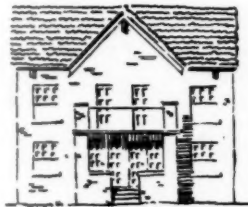
## MODERN BRICK BUNGALOW

Bungalow, as shown and described in pages 122 and 123, exclusive of financing and sales commission.... **26.7¢**  
 With hot air heat subtract..... 1.4  
 Without vitrolite in kitchen subtract..... 0.4  
 With financing charges and sales commission add.. 2.0



## SINGLE FAMILY TWO-STORY RESIDENCE

Single family residence, described on pages 62 and 63, exclusive of financing and sales commission.... **26.2¢**  
 With copper guttering, spouting & flashing, add.. 0.4  
 With variegated slate roofing, add..... 1.0  
 With hot water heat, add..... 1.0  
 Without tile walls in bath, subtract..... 0.5  
 Without shower & with cheap plumbing, subtract... 0.3  
 With ordinary millwork, subtract..... 0.6  
 With financing and sales commission, add..... 2.2



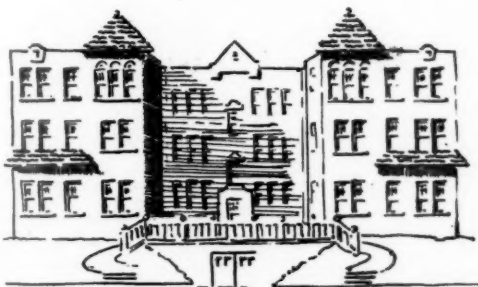
## SPECULATIVE FOUR-FAMILY FLAT

Speculative four-family flat as shown and described on pages 72 and 73, excluding cost of financing and sales commission..... **22.7¢**  
 With copper guttering, spouting & flashing, add.. 0.1  
 With steam heat, add..... 0.7  
 With tile walls in baths, add..... 0.6  
 With showers in baths, add..... 0.4  
 With first class plumbing fixtures, add..... 0.1  
 With financing and sales commission, add..... 1.8  
 With first grade roofing, add..... 0.1



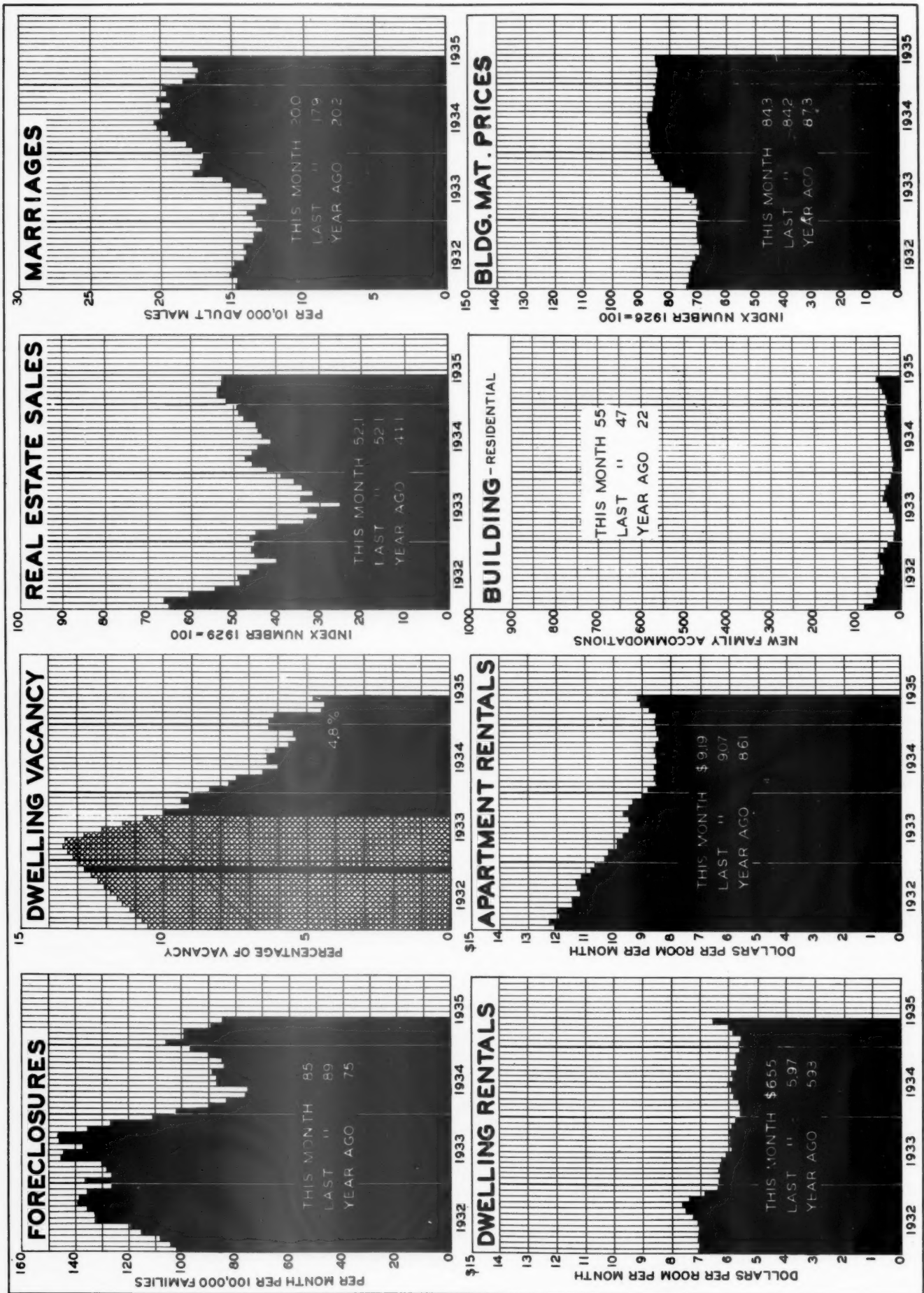
## EIGHTEEN-FAMILY MASONRY APARTMENT

Eighteen family masonry apartment, as described on pages 82 and 83, excluding cost of financing and sales commission..... **36.2¢**  
 With electrical refrigeration, add..... 1.1  
 With gas stoves, add..... 0.3  
 With beds, add..... 0.1  
 With iron rear porches & steps, add.... 1.2  
 With financing & sales commission, add. 2.6



## THIRTY-FAMILY REINFORCED CONCRETE APARTMENT

Thirty family reinforced concrete apartment, as shown and described on pages 92 and 93, excluding cost of financing and sales commission..... **40.0¢**  
 With electrical refrigeration, add..... 1.1  
 With gas stoves, add..... 0.2  
 With iron rear porches & steps, add.... 1.3  
 With financing & sales commission, add. 3.0



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present conditions when a reasonable degree of recovery (such as that in the auto industry) is experienced.

While we see no reason at the present time to alter our forecasts on rentals and values, we see many developments which cause us to wonder if we may not have understated our case.

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these properties brought only twice their distress prices, they were sold for \$48,000 or \$32,000 above the mortgages. This \$32,000 should then have been invested in small mortgages at not over 50% of the value of the properties. By the middle of 1933 it was time to look around for distress bargains and to start switching back to equities. The \$32,000 worth of mortgages could easily be traded for equities in \$96,000 worth of distress properties, assuming \$64,000 indebtedness. Carrying our illustration forward one step further, by 1940 or 1941 we believe it will be time to revert to mortgages and by that time the original \$2000 equity should have grown to at least \$128,000.

The difficulties in following this plan are all psychological. In 1905, for instance, after having increased one's principal 300% by investing in real estate equities and with real estate activity apparently unabated, it took unusual foresight to switch to mortgages where there was no chance for principal appreciation. Also in 1917, when all of one's friends had lost heavily in real estate, it took courage to sell or trade mortgages for equities in a commodity which had shown such a poor record during the preceding twelve years. Again in 1925, only those with unusual vision switched from equities to mortgages. It takes courage today to follow this course, and it will be difficult to persuade oneself to switch back to mortgages five or six years from now.

Unusual profits are the premiums which courage and foresight earn.

The charts on the opposite page, with the exception of the one on building material prices, show the various factors we are studying in Greater Saint Louis. A precise study which is constantly made of all factors affecting real estate in a single representative community is often of greater value in determining the sequence of events in collapse and recovery than a general study of the entire country.

